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Top picker stocks up with cyclicals

MARTY Sass is not worrying about a recession. In fact, he's loaded up his portfolios with cyclical stocks — those sensitive to economic fluctuations.

Sass, founder and president of M.D. Sass Investors Services Inc., which manages \$2.5 billion in assets, believes cyclicals could "lead the next major phase of the market."

That's quite a switch from last September when Sass predicted a big market advance but wouldn't touch any of the groups sensitive to an economic



MARTY SASS
High on airlines

With supply drying up, "Any modest uptick in demand could mean a big increase in earnings," Sass said.

Sass, who's usually at least one step ahead of the crowd, has been buying airlines for the past three months. Of all the cyclicals, they are his favorites.

He admits to being a little early in the airline group because earnings are still poor. "But they will turn," said Sass whose 12-year-old firm has outperformed 87 percent of the 4200 pension and profit-sharing funds monitored by SEI through yearend 1985.

He has three major positions now: UAL, AMR and Texas Air.

What he sees is a consolidation of the industry that will put 80 percent of domestic travel in the hands of five carriers by October.

UAL is also an asset play, Sass said, with total asset value of about \$80 a share. The stock closed at 54%.

Earnings should rise from a strike-depressed loss of \$4 a share in 1985 to a gain of \$4 a share this year and \$6.50 in 1987.

AMR's earnings are projected at \$4 this year and \$5.75 next year.

Texas Air is the most leveraged and most speculative. If it gets approval to take over Eastern, it will be the largest airline in the world. It could earn \$4 a share next year following a small gain in 1986, Sass said.

He says the three are all buys at current levels and offer the potential for a 50 percent rise over the next 12 months.

Other cyclical groups and favored stocks on Sass' list:

- Papers — Boise Cascade, Temple Inland.
- Aluminums — Reynolds Metals.
- Retailers — Allied Stores, Carter Hawley Hale.
- Appliances — Maytag.
- Glass — PPG Industries.
- Chemicals — Dow Chemical.

Sass sees the Dow hitting 2000 this year as part of a continuing bull market scenario.

He's also very hot on the financial services sector to which he has allocated 20 percent of clients' assets.

He holds a bunch of S&Ls: H.F. Ahmanson, Carteret Savings, Citadel, CityFed Financial, Coast Savings, Farm & Home Savings, Great Western Financial and Howard Savings. □

Street Talk Karen Lazarevic

pick-up. (Since that call, the Dow has soared 560 points.)

Sass' thesis now is that the economy will maintain a pattern of slow, steady growth without falling into a significant recession.

"I see 3 percent real GNP growth per year for the next few years," said Sass.

He says companies have gotten "lean and mean, they're closing facilities and reducing unit costs substantially."

In addition, the elimination of the Investment Tax Credit under the tax reform bill will discourage new capacity from coming on line.

MDSASS

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